



HF 599 – Beginning Farmer Tax Credit Program (LSB 1450HZ)
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Fiscal Note Version – As passed by the House Ways and Means Committee

Background

In 2006, the General Assembly created the Agricultural Assets Transfer Tax Credit for landowners that assist beginning farmers in acquiring agricultural assets by lease or rental agreement. The Iowa Agriculture Development Authority (IADA) is responsible, within the guidelines set by the General Assembly, for determining tax credit eligibility. The IADA may issue up to \$6.0 million in tax credits per year. The tax credit is currently 5.0% of the amount paid to the taxpayer under the Cash Rent Agreement, except in the case of a landlord in a crop share rental agreement. In that case, the tax credit, called Crop Share Agreements, equals 15.0% of the amount paid to the taxpayer from crops or animals sold.

Description

This Bill makes several changes to the existing law:

- Increases the tax credit cap from \$6.0 million to \$12.0 million.
- Increases the tax credit percentages for Cash Rent and Crop Share Agreements from 5.0% and 15.0% to 7.0% and 17.0%, respectively.
- Restricts individual tax credits from exceeding \$50,000.
- Creates a new tax credit for landowners that hire a beginning farmer to do custom work and allows the landowner to claim 7.0% of the value of the contract on a tax credit.
- In cases where the beginning farmer is also a veteran, landowners may claim an additional 1.0% of eligible expenses on the tax credit, making the credit effectively 8.0% and 18.0% for the first year of the agreement.
- Increases the maximum net worth used to define a beginning farmer from \$366,324 to \$691,172.
- Allocates \$8.0 million to the current Agricultural Assets Transfer Tax Credit and \$4.0 million for the new Custom Farming Tax Credit. Each tax credit must remain below the allocated amount. The IADA Board may adjust this amount by resolution throughout the year.

Assumptions

Since enactment, the base that the credit is derived from has grown at an annual average of 39.0% per year for Cash Rent Agreements and 35.0% per year for Crop Share Agreements. On average, Cash Rent Agreements are 17.8% of the total credits awarded, Crop Share Agreements are 76.4%, and the remaining 4.1% are combination agreements. This estimate assumes the growth rate history will continue. Additionally, this estimate assumes that the percent division of total awards history will continue. The following table reflects projected Cash Rent and Crop Share base growth based on growth rates of 39.0% and 35.0%, respectively:

**Projected Assets Transfer Tax Base
Veteran and Nonveteran**
In Millions of Dollars

Year	Cash Rent Base	Crop Share Base
2013	\$ 28.5	\$ 39.6
2014	39.7	53.5
2015	55.2	72.1
2016	76.7	97.3
2017	106.6	131.3

Landowners currently in Assets Transfer Tax Agreements that contract with beginning farmers to perform custom work will be eligible for a Custom Farming Tax Credit. Landowners can claim a tax credit of 7.0% (8.0% in the first year for veterans) of the value of a contract for custom work with a beginning farmer. Approximately 26,000 Iowa farmers (28.8% of all farming operations) contract for custom work in a given year.¹ The 2007 USDA Census provides detailed information of custom work expense in Iowa by expenditure size. Based on this, it is projected that 28.8% of taxpayers in the Assets Transfer Tax Agreement will be eligible, and the expense per farmer will be distributed as follows:

2013 Average Contract Value Projections²

Expenditure Category	Percent of Farmers per Category	Eligible Farmers per Category	Category Average Contract	Total Contract Value per Category
Expense: (\$1,000 TO 4,999)	38.9%	97	\$3,291	\$ 317,961
Expense: (\$5,000 TO 9,999)	16.8%	42	\$9,098	379,797
Expense: (\$10,000 TO 24,999)	12.7%	31	\$19,542	615,385
Expense: (\$25,000 TO 49,999)	4.0%	10	\$43,813	433,883
Expense: (\$50,000 OR MORE)	4.5%	11	\$162,816	1,817,034
Totals	76.8%	191	-	\$ 3,564,060

Based on custom work rate surveys conducted by Iowa State University (ISU) Extension, the value of custom work is projected to grow 4.6% per year.³ Concurrently, the number of farmers eligible for the Custom Farming Tax Credit is expected to grow at 4.9% per year.⁴ This estimate relies on these growth rates to calculate future growth of the Custom Farming Tax Credit. It is assumed distribution of custom work expenditures among the various expense categories remains constant through 2017.

Projected Custom Farming Tax Credit Base
In Millions of Dollars

Year	Custom Farming Base
2013	\$ 3.6
2014	3.9
2015	4.3
2016	4.7
2017	5.1

¹ National Agriculture Statistics Service Quick Stats, <http://quickstats.nass.usda.gov/>.

² To be eligible for a tax credit, the value of a custom work contract must exceed \$1,000. Approximately 23.2% of custom work contracts are less than \$1,000, and are not included in tax credit projections.

³ Calculated based on average growth in the ISU Extension Custom Rate Survey from 2007 through 2012.

⁴ Calculated based on Department of Revenue tracking of Agricultural Assets Transfer Agreements from 2010 and 2011.

Further assumptions used to calculate the fiscal impact:

- Assumes 4.4% of beginning farmers are veterans.
- Taxpayers will be able to find beginning farmers capable of performing custom work and meeting IADA criteria.
- Capping individual tax credits at \$50,000 will reduce the total value of awards by 3.4%. This is based on the total value of awards that exceeded \$50,000 in 2011, the most recent year with individual tax credit information.
- This bill allows the IADA Board to utilize an alternative method to compute a tax credit on crop share contracts. The method will calculate a base by multiplying the per bushel yield where the land is located by a per bushel State price. The impact of this change is unknown, and would require Board action. Allowing the Board this discretion will not impact when the Assets Transfer Tax Credit will meet the proposed cap.
- At estimated growth rates, increasing the net worth limit of a beginning farmer does not impact when the Assets Transfer Tax Credit will hit the proposed cap. Given growth rates history, the Assets Tax Credit will reach \$8.0 million beginning in FY 2013 without additional eligible applicants.
- Assumes taxpayers will continue to redeem tax credits according to past timing data for both tax credits. Taxpayers are allowed to redeem credits for five years after receiving the award, and typically 25.6% of awards are not redeemed.

Projected Agriculture Assets Tax Credit Award Utilization⁵

In Millions of Dollars

	Current Law	Proposed Law	Increase in
Year	Assets Transfer Tax Credit	Assets Transfer Tax Credit	Assets Transfer Tax Credit
2013	\$ 6.0	\$ 8.0	\$ 2.0
2014	6.0	8.0	2.0
2015	6.0	8.0	2.0
2016	6.0	8.0	2.0
2017	6.0	8.0	2.0

Projected Custom Work Tax Credit Award Utilization

In Millions of Dollars

	Custom Work	Custom Work	Unutilized
Year	Tax Credit Cap	Credit Tax	Custom Work Credit Cap
2013	\$ 4.0	\$ 0.2	\$ 3.8
2014	4.0	0.3	3.7
2015	4.0	0.3	3.7
2016	4.0	0.3	3.7
2017	4.0	0.4	3.6

⁵ Assumes the IADA will not exercise its authority to reallocate the tax credit award cap.

Fiscal Impact

The estimated impacts of this Bill compared to existing law are as follows:

Estimated General Fund Impact⁶ \$8.0 Million Cap Agriculture Assets Transfer Tax

In Millions of Dollars

Fiscal Year	Current Law	Proposed	General Fund Impact
2013	\$ 3.5	\$ 3.5	\$ -
2014	3.9	4.7	(0.8)
2015	4.2	5.4	(1.2)
2016	4.3	5.7	(1.4)
2017	4.4	6.0	(1.5)

[HF 599](#) allows the IADA to adjust the cap allocation. Should the IADA allocate \$11.0 million to the Assets Transfer Credit and \$1.0 million to the Custom Work Credit, estimated impacts of this Bill compared to existing law are as follows:

Estimated General Fund Impact \$11.0 Million Cap Agriculture Assets Transfer Tax

In Millions of Dollars

Fiscal Year	Current Law	Proposed	General Fund Impact
2013	\$ 3.5	\$ 3.5	\$ -
2014	3.9	5.1	(1.1)
2015	4.2	6.6	(2.4)
2016	4.3	7.4	(3.0)
2017	4.4	7.8	(3.4)

Sources

Department of Revenue
Iowa Agriculture Development Authority
Iowa State University Extension
Legislative Services Agency Analysis
United States Department of Agriculture National Agricultural Statistics Service

/s/ Holly M. Lyons

March 19, 2013

The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

⁶ Note: Not all tax credit awards are redeemed in the award year. Awards expire five years after being issued.